



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 7, 2007

### **H.R. 1873** **Small Business Fairness in Contracting Act**

*As ordered reported by the House Committee on Oversight and Government Reform  
on May 3, 2007*

#### **SUMMARY**

H.R. 1873 would make several changes to the laws that promote and encourage federal agencies to contract for goods and services with small businesses. The legislation would amend the definition of "bundled contracts" (the practice of combining two or more contracts into a single agreement) for the procurement of goods and services and require agencies to better justify the need for such larger contracts rather than smaller ones that could be available to small businesses. The federal government currently has a goal of acquiring 23 percent of most goods and services from small business. The bill would increase that goal to 25 percent. H.R. 1873 also would require the Small Business Administration (SBA) to develop new regulations and new databases and to conduct other efforts to encourage and promote the use of small businesses in government contracting.

CBO estimates that implementing H.R. 1873 would cost \$10 million in fiscal year 2008 and \$75 million over the 2008-2012 period, subject to the availability of appropriated funds. Enacting the bill would not affect direct spending or revenues.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 1873 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit) and all other budget functions that include spending to procure goods and services.

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Administration of Governmentwide Procurement					
Estimated Authorization Level	10	10	15	15	15
Estimated Outlays	8	10	15	15	15
Small Business Administration					
Estimated Authorization Level	2	2	2	2	2
Estimated Outlays	2	2	2	2	2
Total Changes					
Estimated Authorization Level	12	12	17	17	17
Estimated Outlays	10	12	17	17	17

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that the H.R. 1873 will be enacted near the end of fiscal year 2007, that the necessary amounts will be appropriated over the 2008-2012 period, and that outlays will follow historical spending patterns for contract administration spending. CBO estimates that implementing H.R. 1873 would cost \$10 million in 2008 and \$75 million over the 2008-2012 period, assuming appropriation of the necessary funds

### **Administration of Governmentwide Procurement**

H.R. 1873 would amend the definition of "bundled contracts" to restrict the bundling of contracts that were formally performed by small business with exemptions for the procurement of goods or services with a value of at least \$5 million and construction projects worth more than \$65 million. Under the bill, agencies would have to justify the use of bundled contracts by evaluating whether or not such work could be performed by small businesses. The SBA could appeal to the agency to determine whether the use of bundled contracts by an agency is justified and inform appropriate Congressional committees of its findings. In addition, H.R. 1873 would amend current law to increase the goal of using contracts with small businesses from the current governmentwide goal of 23 percent of the value of all government contracts to 25 percent. The legislation also would increase the goal for contracts with disadvantaged and women-owned business from 5 percent of the value of all government contracts to 8 percent.

Recent SBA procurement reports indicate that the federal government is contracting for about 25 percent of all goods and services it obtains from small businesses, consequently CBO expects the new goal in the bill would not significantly change agencies' behavior or add to administrative costs for procuring goods and services.

CBO estimates that about 30,000 federal employees are responsible for administering the procurement of goods and services for the government at a cost of about \$2.5 billion a year. Based on information from agencies with the most procurement spending and an analysis of SBA reports on governmentwide and small business contracts, CBO expects that, to implement the bill, agencies would incur additional discretionary costs to justify the use of contract bundling and to encourage the use of disadvantaged and women-owned small businesses. Additional costs would be incurred to review and analyze the need for bundled contracts, prepare additional market research to identify small business concerns able to perform government contracts and provide necessary products, and expand existing mentoring and developmental programs to prepare disadvantaged and women-owned small businesses to obtain government procurement opportunities. CBO estimates that complying with the requirements and goals in H.R. 1873 would increase administrative costs by about \$15 million annually, or 1 percent of the \$2.5 billion that CBO estimates is spent to administer the government's procurement contracting efforts.

### **Small Business Administration**

Several provisions of H.R. 1873 would increase the responsibilities of the SBA to monitor and support small business preferences in government contracting and procurement. This would include reviewing bundled contracts and auditing contractor databases. Based on information from SBA, CBO estimates that those provisions would cost about \$2 million per year.

### **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 1873 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

## **PREVIOUS CBO ESTIMATE**

On May 4, 2007, CBO transmitted a cost estimate for H.R. 1873 as reported by the House Committee on Small Business on May 1, 2007. The version of the bill reported by the House Committee on Small Business would provide more opportunities to review the use of bundled contracts and would significantly increase the goal of using small businesses to fulfill government contracts to 30 percent. The Small Business Committee version of the bill also would apply this goal to each agency individually. Consequently, CBO estimates that the Small Business Committee version of the legislation would be more costly to implement than the version of the legislation ordered reported by the House Committee on Oversight and Government Reform.

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